IP Considerations in M&A Transactions: Masters Class

How to Navigate IP Traps Commonly Missed by Corporate and M&A Generalists

ABA IP West Conference
Thursday, October 12, 2017
Panelists

Kandace Watson
Corporate Partner, Sheppard Mullin
Kandace Watson has extensive experience representing companies, corporate boards and executives in intellectual property (IP) intensive industries, including biomedical, biotechnology, chemical, healthcare, pharmaceutical, social media, software and technology. She was recommended in 2016 by Legal 500 US for Mergers & Acquisitions and Buyouts. She was named San Diego's “Top Attorneys 2015” in the Corporate Transactional practice category presented by The Transcript. Corporate boards and management teams seek Ms. Watson's legal and strategic advice to structure, negotiate and close complex transactions, comply with related SEC and other federal and state regulations, and expand operations globally. She frequently handles matters involving non-practicing entities (“NPEs” or “Patent Trolls”) and regularly leads transactions to successfully consummate patent purchase and license agreements.

Marty Lorenzo
Vice President of Legal Affairs, Petco
Marty Lorenzo brings over 28 years of experience derived from the legal, business and military fields. Marty is currently the Vice President of Legal Affairs at Petco Animal Supplies, Inc. He provides sophisticated strategic legal advice and counsel on a wide range of commercial matters. Prior to joining Petco, Marty was in private practice, most recently at Kilpatrick Townsend & Stockton LLP, where his practice focused on international business, corporate finance, and securities. He advised clients on a wide variety of business issues and strategic transactions, such as mergers and acquisitions, initial public offerings, capital formation, international expansion, technology licensing, and corporate governance.

Amit Kumar
Associate General Counsel, adidas Golf and adidas Special Projects
Amit Kumar is the primary lawyer for adidas’s worldwide golf business and he also supports adidas’s M&A team. Prior to joining adidas, Amit was Counsel at Kilpatrick Townsend, where he advised companies – in particular consumer product brands – on matters relating to technology transactions, mergers, strategic alliances, manufacturing, distribution, and advertising. Prior to joining Kilpatrick Townsend, Amit was the Vice President of Legal Affairs for TaylorMade-adidas Golf, where he represented the company in a variety of matters for over ten years.
NDA’s aka Non-Disclosure Agreements and Confidentiality Agreements

- Key Legal Terms (Non-Use and Non-Disclosure)
- What needs protection?
- Who needs protection?
- How long is protection needed?
- When should confidential information be shared?
- Where will confidential discussions occur?
- Practical tips
Confidentiality Considerations

- Do special NDA’s need to be used for acquisition activities for Seller and Buyer?
- Develop a plan to keep the transaction confidential.
- Determine internally those with a need to know.
- Do these employees need to sign new NDA’s for the specific transaction?
Getting in the Deal Early

- Is IP a key asset of the deal?
- Patents (e.g., Products & Technology)
- Trademarks (e.g., Brands)
- Copyrights (e.g., Software, Music, Photography)
- Trade Secrets (e.g., Know-How)
- IP Representation & Warranty Insurance
Preliminary Considerations

- Involve your in-house and/or IP counsel early in the deal.
- For Buyer: To review Seller’s IP and to prepare for the pre- and post-deal work.
- For Seller: To collect all of the information on Seller’s IP and to fix any portfolio deficiencies.
- Ask these questions
  - Do you have enough internal people power for all aspects of the deal?
  - Do you need to hire more people temporarily or permanently and if so, do you have enough money in the budget for this?
  - Will there be additional third party costs for doing various types of IP analyses and are they budgeted for?
- Determine your realistic needs early in the process, to have a realistic chance of getting what you need when you really need it.
IP Due Diligence

- Ownership
- Proprietary Invention Assignment Agreements (Employees, Contractors)
- Expiration Dates
- Freedom to Operate
- Competitive Landscape
- Product to Patent Claim – Cross Check
- Litigation Searches
- Domain Name Searches
- Trade Name and Commercial Sources (D & B)
Purpose of Buyer Due Diligence

- Determining if Seller is capable of delivering the rights that Buyer wants to acquire.

PATENTS

TM ® ©

TRADE SECRETS
Diligence Open Source Issues

- Did the Seller have an open source policy?

- Consider using a software program (such as Black Duck) to analyze whether any open source has been used.

- The Buyer’s due diligence should inquire whether such a scan has been conducted and review the results.
Diligence Data Protection and Privacy

- Cyber-attacks or intrusions on the Seller’s systems
- Seller’s data collection practices and compliance with its Privacy Policy
- Third-party contractual obligations
- Claims or complaints involving privacy or data breaches
- IT business continuity plan
- Security guidelines
- Breach plans and procedures
Buyer should research independently and also require Seller to disclose and provide documents regarding:

- All existing litigation, world-wide as either P or D
- All regulatory inquiries, proceedings etc. before any governmental body (antitrust, PTAB, FDA, etc.)
- All threatened or potential litigation or regulatory proceedings regardless of how threatened
- Any potential offensive litigation that has been considered within the last year (consider privilege)
Particularly important in asset deals.

Put included IP on a schedule. In some cases, call out excluded IP if applicable.

- Do purchased assets include only identified IP or is there a catch-all?

- How to describe trade secrets on a schedule?
  - Consider doing this by reference to a separate document – remember that the purchase agreement might be shared with a certain audience (bankers, lawyers, finance teams, consultants, etc.)
IP Related Reps/Warranties

- Get reps for important IP matters
- Breach of Reps:
  - Indemnity for actual damages suffered
- Indemnification is less common in public company acquisitions (complexity of recovering from many shareholders)
- Consider escrow/hold-back of some of consideration being paid for breach of reps/warranties? If so, how much and for how long?
- Offset against earn out payments?
  - **TIP:** Look at the offset language to ensure that is a possibility
- Indemnity may be limited to actual damages, and may have caps and baskets
  - Insurance?
    - **TIP:** Sometimes Buyer wants to cut costs by getting reps for things instead of doing due diligence, but reps and warranties are not a good substitute for proper IP due diligence.
- Anti-sandbagging issues – if you find out something in diligence, bring it up and negotiate over it. Don’t stay silent.
➢ Survival: How long should the Seller’s IP indemnification obligations survive.

➢ Thresholds On Seller’s Liability for Indemnification of any IP rep and warranty: For example, until the aggregate amount of all Losses in respect of such indemnification exceeds [PERCENTAGE]% of the Purchase Price.

➢ Insurance: None vs. All Reps vs. IP Reps
Tip: IP integration issues should be considered, particularly by in-house counsel, as early as possible or the integration may not go so well.
IP Integration

- Do you want to integrate the acquired party’s IP with your IP or keep it separate and, if so, for how long?

- Do you have the infrastructure (software, people, expertise) to manage it? If you don’t, how quickly can you get it?

- Don’t underestimate the difficulty and costs of integration, e.g. assignments, IP management, etc.
IP Battle Scars in M&A Transactions
Contacts

Kandace Watson
Corporate Partner
Sheppard Mullin
Phone: 858.720.8930
Kwatson@sheppardmullin.com

Marty Lorenzo
Vice President of Legal Affairs
Petco

Amit Kumar
Associate General Counsel
adidas Golf and adidas Special Projects